RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Dec. 4, 1996 **LETTER 1214**

LOST RUDDER: *"We've shifted to a market that's being driven by liquidity and emotion instead of valuation. Once the market drops valuation as a benchmark, it has lost its rudder"* -- Gail Dukeck, equity market strategist at UBS Securities.

Comments: **(1)** Once in every decade or so we see a market move that seemingly has taken on a **"life of its own."** We are seeing one such move now. The Dow has risen on 17 of the last 20 days. Any way you look at it, it's an amazing string.

(2) Neither I nor anyone else knows where this market is heading, but wherever that is, it's sure doing it in a hurry.

(3) It's undoubtedly doing it with fund money. But remember, fund money is not fund managers' money -- it's somebody else's money.

(4) You have to wonder what in God's name Alan Greenspan is thinking about.

THE MARKET: The stock market, in its straight-up advance, is continuing to discount the BEST that can be seen ahead. Both my Primary Trend Index and the advance-decline ratio are at new highs as is the Dow and the S&P 500. On November 26 the lagging Transportation Average finally rallied above its May high; ah, but it failed to close there. My comment: even if the Transports do belatedly confirm, the confirmation would occur a full **seven months** after their May high. Because of the time lag, I wouldn't consider that a particularly bullish event (more in Late Notes, page 6).

In view of the extraordinary almost vertical climb in the Dow, I keep asking myself the same question -- did the Dow at yesterday's (most recent) high discount the best that can be seen ahead? It's a question neither I nor anyone else can answer. Subscribers should keep one thing in mind, however, and it is this -- **once the market has discounted the best that can be seen ahead, a bear market begins.** That, in a nutshell, is why bear markets begin so deceptively -- they start when the situation could not look more promising, more exciting, more rosy.

THIN ICE: Why do I wonder whether each new high in the Dow "could be" THE FINAL high? Here's my answer: this market has spread itself mighty thin as it continues its extraordinary string of new highs. **(1)** There has not been a correction in the Dow of as much as 10% since 1990, a record span. **(2)** This market has not experienced a MAJOR bear market since 1974, the longest span by far without a bear market in Wall Street history. **(3)** The yields on both the Dow and the S&P 500 have actually sunk below the 2% level; never, from a dividend standpoint, have stocks been this richly valued. The historic average yield for the Dow since 1900 is 4.4%. **(4)** Both the Dow and the S&P are selling at well over four times book value, an all-time record. **(5)** Public participation in the market is massive, via mutual funds. So far in '96 the public has invested $127 billion in domestic equity mutual funds -- the current inflow is equal to all the savings generated in the US this year. **(6)** Margin accounts on the NYSE are at a record level of $89.3 billion, indicating huge, historic participation by speculators. **(7)** There are now 527,000 stock and bond salesmen in the nation. There are currently 4,700 hedge funds. And there are more than 22,000 investment clubs. **(8)** Commentators are suggesting a Dow price of 7,000, 8,000 and even 10,000 within the next 12 months, this while the Dow is yielding a rarefied 1.9%. **(9)** Dow dividends have increased 11.5% over the last year, while the Dow itself has increased over 28%. Thus, it's notable that the bulk of the Dow appreciation is a function of the enormous *increase in valuations* rather than any comparable increase in dividend return. **(10)** For the first time in history, the capitalization of the US stock market is greater than the entire US Gross Domestic Product (the stock market is now valued at 101% of GDP; for comparison, the average in past history is 47.9%).

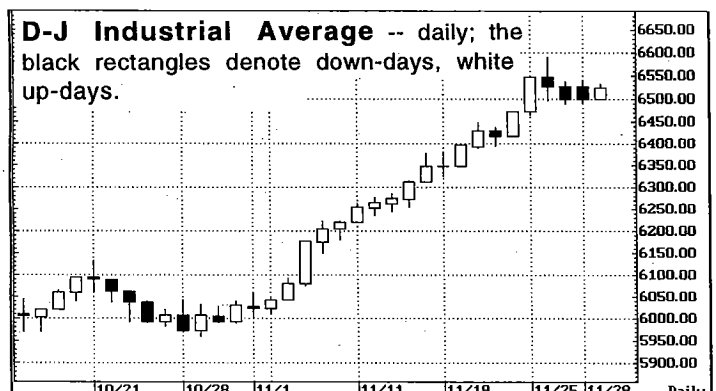
Nov. 22 DJIA 6471.76; PTI 4727; A-D Ratio +2.57
Nov. 29 DJIA 6521.70; PTI 4737; A-D Ratio +2.92
Dow Yield: 2.01%; Dow Price/Earnings: 18.9
Dow 144-day MA: 6023; Dow 34-day MA: 6351
Dow Times Book Value: 4.87; PTI 89-day MA: 4642
Percentage of Undervalued Blue-chips: 5%
Gold 200-day MA: 390.36; Gold-PTI: 272

Thought: The stock market has been at extremes many times before, but ultimately "normality" always returns. For instance, in July 1932 the Dow sold at 41, a level that discounted all but the death of the US as a nation. Of course, the nation did not die. What did happen was that investors, after three years of crashing prices, became far too depressed and pessimistic.

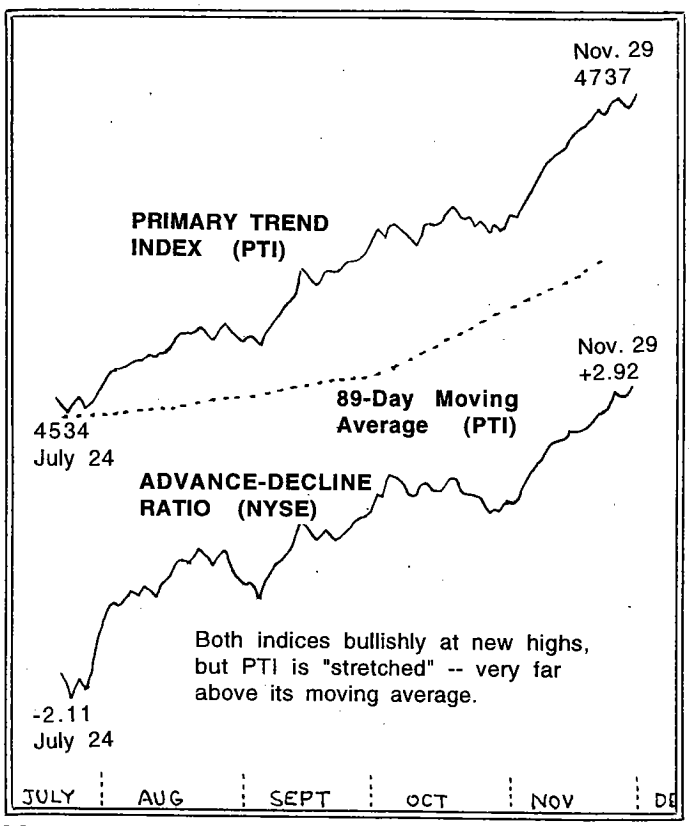
Today the Dow sells at over 6,500, a level that would seem to discount many additional years of sustained growth. Can that happen? Can corporate profits continue to expand without a correction, and can the US generate quarter after quarter of growth? Mebbe. We'll see.

REALITY: In this business, it's easy to be fascinated with what "should" or "should not" happen. The reality is that the Dow and the broad S&P have set new record highs. The rise has been confirmed by the advance-decline ratio (NYSE) and led by my Primary Trend Index (PTI).

This market is also enjoying the longest and largest uncorrected advance in stock market history. Where will it end? Dunno. All I know is that at some point it WILL end. Many subscribers have asked, "How do you think the rise will end and what do you think the aftermath will be?"



After 14 out of 16 days of advance the Dow appears to be consolidating. Or is it hesitating, maybe having second thoughts? Let's see if the market can push up and out from here -- again. One plus -- breadth is improving.

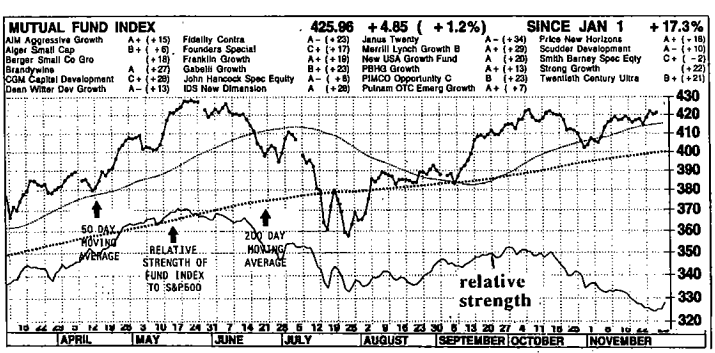


My answer: if I had to guess I'd guess that the termination of this rise will be **deceptive**, maybe some milling around at the top (no crash), then a puzzling and confusing multi-step decline. I would also guess that the market will do whatever it has to -- to seduce the most number of investors into holding on to their stocks and carrying them heavily into the loss column. The aftermath? As much pessimism as there is now optimism.

Question for we old-timers: have you ever seen the public come out ahead during a complete stock market cycle (i.e., a complete cycle entails a bull market and ensuing bear market)? **Fact:** US households now have more money invested in stocks than in cash, bonds or total home equity.

Dow: The Dow has been the **leader** on this "feeding-frenzy advance." The money has consistently poured into the big "safe" stocks, the liquid stocks, the stocks with the huge, international, sales capacity. Interestingly, market breadth has not been spectacular, and on many days when the Dow was spurting, advances barely outnumbered declines. This action has taken my 25-day plurality of the advances minus declines into heavily overbought territory.

Funds: To me, one of the more interesting studies is seen in *Investor's Business Daily's* chart of 20 leading equity mutual funds. Here we see that the **Mutual Fund Index** hit its high last May. A second peak was recorded in October. But the surprise is that on the latest November market advance the Mutual Fund Index just equaled its October high but again failed to better the old May high. With that action, the relative strength of the Index dropped to a new low for the year. Conclusion: the mutual funds, on average, have not been able to keep up with the market. Reason -- the funds can't have all their money in the winners, the big-cap stocks.



Primary Trend: The uncovered short interest (NYSE) has just risen to an all-time high. Margin accounts have just advanced to all-time highs. Both of these phenomena constitute additional ammunition for the bulls.

But I want to explain again that at some point the bull market will have DISCOUNTED the very best that can be seen ahead. At that point the great primary trend of the market will turn down. When that happens no study, no Fed manipulation, no presidential hype, no Congressional bill, no tax revision, will reverse the primary trend of the market.

So it is well to remember that the higher this market rises, the nearer it will be to the ultimate bull market top. As this is written, I believe that the market is a liquidity and momentum driven market that has lost its connection with historical values (re-read the first paragraph of this Letter).

More comments: The Nov. 25 *WSJ* published an article which presented the argument that dividends are not as important as they used to be, the reason being that dividend payout is now the lowest since the '60s while corporate earnings are surging. My response is that the **return on investment is always important;** furthermore, dividends change very slowly while earnings can change wildly in the space of six months or a year. Thus, I distrust the argument that "today, because of low payout, dividends don't count." They do.

In the same Nov. 25 *WSJ* a front page piece notes that Fed Chairman Alan Greenspan has to be worried about the great surge in stocks -- yet he hasn't done anything about it. Yeah, I've noticed the same thing. My feeling is that Greenspan should have raised stock margins in August or September. But at this point, Greenspan conceivably could be afraid of raising margin rates, thinking that "Fed tightening" (in view of the market's uncorrected stilt-formation) could precipitate a panic (which, of course, would be blamed on Greenspan and the Fed). Therefore, Greenspan faces a dilemma -- let the market roar onward or try to hold it back; either way it could lead to trouble for the "do nothing" or "do it too late" Fed. Greenspan is the current hero of the economy, but he's (to my mind) moving closer and closer to a no-win situation.

In that day's *WSJ's* editorial page, economist Henry Kaufman warns of the possibility of a crash, in view of the great, persistent rise in the market. Well, the warnings are there as they always are. But the public and the funds have "the bit in their teeth," and even warnings in the*Journal* won't stop the market from reaching its target (wherever that may be).

Discounting: Every day we read forecasts regarding what the economy "should do" or "could do" next year. This is supposed to encourage stockholders who may be worried about the height of the current level of the stock market. But what people forget is that the **function of the stock market is to discount -- to look ahead.** Thus, **one never knows how much the stock market has already discounted.** Which, in a nutshell, is why my subscribers and I place our credence in the market action rather than the news and the forecasts. A few of us remember that at every market top the economists werre telling us how great everything was and why business could only get better. But the market discounts -- and at the top the good new is always fully discounted.

NOTE: I've written some of this Letter before Thanksgiving, some after, some on the weekend. The way this wild market is trading, it's extremely hard to draw any intelligent conclusions, since the Dow can be up 40 points in the morning, down 25 points two hours before closing, and then up 40 points at the close. Therefore, I'm saving my final thoughts for the bottom of page 6.

INVESTMENT POSITION: It's interesting, my older subscribers are worried about this market and my younger subscribers are gung-ho. Moral: once you go through a bear market (which most older subscribers have done) you get the fear of God in you.

There's no sense even keeping the question mark in the box -- obviously, the bull is in command. As I said earlier, even if the Transports do confirm (bettering their May 2 high of 2296.20), after a seven month lapse I don't consider such action particularly bullish (the longer the wait for a confirmation, the less valid or important the confirmation).

Those who are in the big cap stocks are delirious, those who are in the secondary stocks wonder, "when?" Those who are not invested better sit tight. Those who are optimistic better watch the market and forget the predictions of economists. Those who are pessimistic, you've had a long wait, but you can console yourself with this -- you're now 1300 points nearer the top than you were last July.

The bonds act well, and they'll act a lot better if the nation goes into recession next year (oops, I forgot, the consensus of economists say that can't happen).

If you're in stocks, stay with it until the PTI tells you differently. If you're out of stocks, stay out; it's too late to be a hero, but it's not too late to be a loser.

RISK: I've often written that I have trouble "getting through" most books. Fiction -- most of the time I'll get about a third of the way through a fiction book, either because it's just not that interesting or that it's not worth the time and effort to read (I'd rather see a two-hour movie). Of course, when it comes to Dostoievski or Shakespeare or even Fitzgerald or Hemingway, that's another story because there you're dealing with writers who can write.

Then there's non-fiction, and here I've complained that most non-fiction books are three or four paragraphs blown up into full-length volumes. So in most non-fiction I find that I'm spending too much time not learning anything and not being that fascinated.

Incidentally, my antidote for all this is to read the *NY Times* book review and the book reviews in the *LA Times* and the *Washington Post*. Their reviews often cover the meat of a book and occasionally they pique my interest to the point where I go out and buy the book.

Occasionally, I come across a book that I term a "mind blower." That happens once or twice a year if I'm lucky. I'm reading one such book now. It was written by a distant cousin of mine, a brilliant writer, thinker, historian and economist named Peter Bernstein. The name of the book is "Against the Gods, the Remarkable Story of Risk" (John Wiley & Sons).

Risk, in case you didn't realize it, is one of the most fascinating and important subjects that you can come across. And the history of risk and the meaning of risk and how risk works is a subject that I've never come across before -- at least not in a single book. Bernstein's book has all the excitement of a good novel, but it is also filled with a wealth of stories, explanations and historical facts.

Think about this: communism was a system basically dedicated to the elimination of risk. The Communists accused capitalism of being cruel in that it was risky, cycle-prone, and lived off the sweat of the workers. So the Communists put forth a system in which the state decided what to produce, how to price it, who would sell it, on and on. The state, in its wisdom, would eliminate the risk of the markets. Eliminating risk didn't work. The Communist system masked all its inefficiencies, then collapsed.

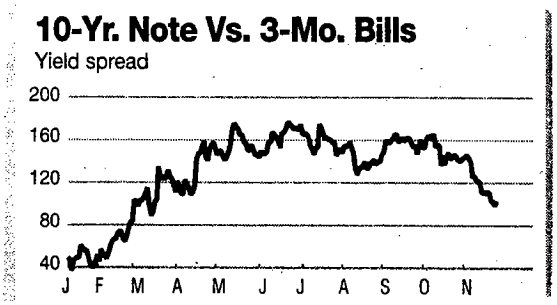
Warren Buffett, the great investor, understands and deals with risk. Last week it was announced that for a premium of $590 million, Buffett would insure California against a "big quake" for the next four years. If the damage from any quake exceeds $7 billion in homeowners' claims, then Buffett's firm would pay the next $1.5 billion in claims. Buffett's no fool, he is fully aware of the risk involved. Actuary tables tell him that the odds are 20 to 1 in Buffett's favor. The state likes the deal. They figure that the $590 million premium they pay Buffett is cheaper than paying higher interest on bonds, which the earthquake authority had originally planned to sell to buttress its resources.

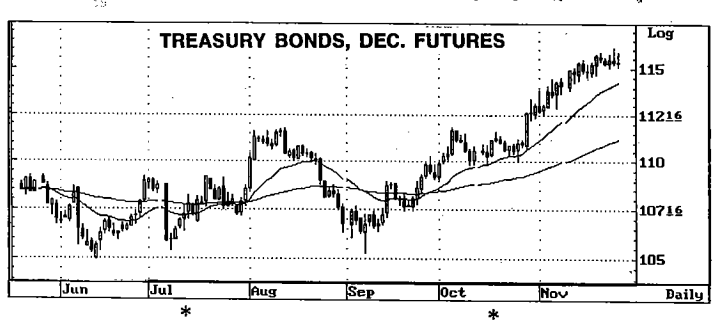
There are many valid plans and concepts all dedicated to dealing with risk. Social Security is a plan to avoid the risk of a huge poverty-stricken, aging population. Of course, SS is a disaster because it was never properly funded. Medicare comes under the same category.

But futures, options, and derivatives in general are all vehicles constructed to deal with risk. As the Bernstein book tells us, understanding and dealing with risk has changed the world. Furthermore, with the rise of the computer, dealing with risk has becoming widespread. In all, it is a totally fascinating subject and the Bernstein book is one of those rare books that may well change your thinking. You guessed it -- I recommend this book highly.

NOTES & QUOTES: What's with the rallying bonds? Here are my best thoughts. The first chart has been one of the best "predictors" for trends in the economy. A drop in the spread between the notes and bills has usually meant a forthcoming slowdown in business. If the chart "works" this time (chart courtesy of *Investor's Business Daily*), then the US economy is due to contract next year. And if that happens, the Fed is sure to drop interest rates. Which, to my mind, is why bonds are now strong. The bonds sense a business slowdown in early 1997 -- along with a Fed frantic to keep the good times rolling (via lower interest rates).

Bond yields have been falling throughout the world. This has made the comparatively high-yielding US bonds attractive on an international comparison basis. Probably the most attractive and best-buy in bonds are the bonds of New Zealand, which are still offering fat yields, despite the fact that NZ inflation is heading lower and despite the fact that the NZ central bank is now one of the most conservative in the world.





Economists: Now that everything looks honky-dory, the nation's "top economists" have come out telling us that everything is going to be honky-dory right into the next century. My opinion: these

guys don't even know what's going to happen next month, let alone where we'll be in the year 2,000. At any rate, the consensus of 44 professional forecasters now say that we'll have average growth of 2.5% over the next five years. The Russell bet -- bet against it.

Top Economists See Longest Period Of Sustained Growth

By JOHN D. McCLAIN
Associated Press Writer

WASHINGTON — The current economic expansion will continue into the 21st century and become the longest period of sustained growth in U.S. history, many of the nation's top forecasters believe.

The National Association of Business Economists said Monday that the

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The prestigious *NY Times* endorsed Clinton for president. But is the *Times* finally getting fed-up? On Nov. 20 in the lead editorial ("An Instinct to Deceive") the *Times* asks, "What will it take to persuade this White House to tell the truth simply and promptly once a scandal is brewing? Apparently not even the advice of two lawyers of uncontested loyalty to Clinton can overcome the cover-up instinct that has made a quagmire of Whitewater and is turning the Indonesian fund-raising affair into a matter that neither Congress nor the Attorney General can ignore." The last paragraph runs, "In any event, this matter looks potentially more serious than Whitewater, in part because the events are so well documented and because the legal issues are so profound. Senator McCain is right. Only someone with subpoena power can piece together whether the money flying through Mr. Huang's hands was linked to any favor from government. It's time for Ms. Reno to look to her own reputation and name a counsel." **Russell comment:** If the White House has its way, Janet Reno (who has been appointing "too many" special counsels) will soon be history.

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SUMMING IT UP: *"The election results provided the financial markets with the best of all possible worlds. Bill Clinton did not get a mandate. He did not even get a majority of those who voted. As a result, Clinton will be the only two-term president to govern with a majority of voters who preferred somebody else. Accordingly, Clinton will have to govern as a centrist Democrat. . . The Republicans held onto the Congress, but they too were humbled. The Democrats picked up some seats in the House, and the Republicans expanded their majority in the Senate" -- Klein-Wolman Investment Letter*, (609)243-0073.

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USA Today (Nov. 27) states that White House counsel Jane Shelbourne now expects White House indictments by the end of February. The big question on every Democrat's mind -- will Hillary be indicted, based on whether she told the truth under oath about her legal work for an Arkansas S&L?

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The latest US trade deficit rocketed over $11 billion, with China taking over from Japan as our latest "problem." Then there's the federal budget deficit which in October surged to $40.3 million, up 78% from October a year ago. Speaking of the federal deficit, which the Administration says is only $107 billion, the **actual one-year addition** to the national debt is $302 billion -- that is the actual federal deficit. But the Fed's Flow of Funds Accounts publication shows the US budget deficit at $349.5 billion, which is the actual amount of new money that our government borrowed last year. Much of these enormous deficits have been financed by the Bank of Japan. How much longer this can go on is debatable. Of course, it's also amazing that the dollar has held up in the face of massive US borrowing.

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I've written a number of times that while Asia has been viewed as a huge, untapped source of demand, Asia may also become a huge source of supply. What's happening now is that Asia is actually over-producing, and the pricing of many items has become extremely competitive. My old friend, Kiril Sokoloff [*13D Research*, (203)792-1300] asks the question, "Is the Pacific rim sliding from boom to bust?" He then offers the following facts: (1) The Shanghai B share index has fallen to a record low, down 56% from its three-year peak. (2) Thailand shares have fallen 25% in the past five months and are now 34% below their three-year highs. (3) Singapore shares have fallen 16% from their late-1993 highs. (4) Philippine shares are 12% below their '93 highs. (5) Indonesian shares are 5% under their three-year highs. (6) Malaysian shares are 8% under their three-year highs. (7) Indian shares are now 33% below their three-year highs.

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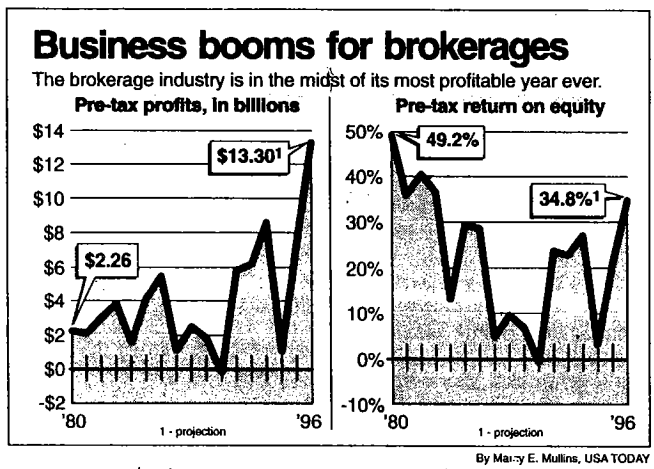
Nobody loves a bull market more than Wall Street, and the reason is obvious. Wall Street's business is selling stocks to the public. When the market booms, the public becomes enthusiastic buyers. Then Wall Street reaps oceans of commissions, mergers take place, and new issues come out of the wall (believe me, I know -- my wife Faye, who is a corporate lawyer, is busy, busy, busy with IPOs). The chart below shows the astounding profits that have come to the Street. It's bonanza time in lower Manhattan and the City's pricey restaurants are packed.



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I've written about this before, but I'll say it again -- a major trend change is now going on, and I call it "the empowerment of women." Consider the following -- women were almost surely the main force in getting Clinton elected. Women now outnumber men in medical school, and women now outnumber men in law school. Women got the vote in the 1920s, and once they got political power the writing was on the wall. Note that women are no longer accepting discrimination in the workplace. You're with a corporation, my man, and you make a few sexist remarks about a woman and you're looking at big trouble and maybe a job somewhere else. The armed services are not taking gender discrimination any longer, and neither are the military schools. I was fascinated to see a picture in the *NY Times* (Nov. 19) of four Congresswomen grilling a group of top generals on the position of women in the army. It's a new world, a world moving towards equality for women. **Russell opinion** -- and it's about time. Russell prediction -- a woman vice-president (and maybe president) within 15 years.

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Only two sports are truly international -- tennis and golf. But there's another sport that is played (and watched) by more people than any other -- soccer. The US has resisted soccer; some say it's boring, some say it's too frustrating, some say it's too low-scoring. Nevertheless, US high school participation in soccer is exploding -- it's up over 80% since '85. To me, it's obvious that it's only a matter of time before soccer becomes a BIG sport in the US. Moms like soccer because their kids don't get hurt the way they do in football. Girls can play soccer, and the ever-expanding US Latino population is always excited about soccer.

* *

What's the hottest profession around today? You can make a good case for chef. With layoffs in many areas and with super-star chefs gaining movie star status, the cooking schools are overflowing with new applicants. According to the Bureau of Labor Statistics, the number of job openings for chefs and cooks jumped 73%, from 408,000 to 704,000 from 1983 to 1994. With the growing popularity of upscale restaurants, the outlook continues bright. The culinary schools are bulging. For instance, the New York Restaurant School is running classes 24 hours around the clock and total student enrollment has jumped from 400 when the school

opened in 1992 to the current 1,000 full time students. Furthermore, as many as 80% of the students are switchers, leaving other jobs to become chefs in the cooking mania that is sweeping the nation.

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An interesting new book has been published entitled, "The Millionaire Next Door" by Thomas Stanley. Stanley has become a millionaire by studying the habits of millionaires. He says the key to becoming rich is the ability to hang on to your money. This means that consumption must give way to cultivating financial security and independence. Stanley notes that "the real problem for people who make . . . high incomes that don't accumulate wealth is that they spend money on things that have absolutely no value." Stanley notes that the public's concept of the high-living, big-spending mogul millionaire is wrong. There are roughly 3.5 million millionaires in the US -- the typical millionaire has a net worth of $3.7 million, probably owns a small business and doesn't flaunt his wealth. In fact, the major point of the book is expressed in the chapter entitled, "Frugal, Frugal, Frugal." Interestingly, Stanley found that 43% of millionaires who have grandchildren pay for all or part of their private schools. But research found that the "kids" who receive this largesse end up with less affluent lives than their grandparents, though they may achieve professional success in their chosen fields. Writes Stanley, "The more 'outpatient' care you give to adult children, the more they spend." Asked how a lot of millionaires raised great kids, the milis answered, "We never told them we were wealthy." **Russell comment:** Money from parents helps some kids, hurts others. But I can tell you from experience, nothing builds character like "doing it yourself." However, people who have big bucks always face the decision -- should I give it to my kids or should I give it to the government? Personally, I prefer the kids.

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From the Nov. 21 *London Financial Times*: "China has told British officials it intends to march 6,000 troops across the border into Hong Kong as soon as it resumes control of the territory at midnight on June 30 next year. The soldiers will be accompanied by air and naval forces in a display designed to emphasize China is now once again in sovereign control after a gap of 150 years. British officials fear troop movement, which will be widely seen on TV around the world, will create nervousness about the style of government China plans for Hong Kong." **Russell comment:** Yeah, I'd be nervous too. Nevertheless, the Hong Kong stock market has been hitting new highs.

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We're becoming "Titanic-a-sized." A new Titanic mini-series on TV, a revival of the old film on TV, a new Titanic movie, a Titanic symphony, a long-running Las Vegas Titanic spectacular, and a Titanic documentary on the Discovery channel. It's a revived fascination with one of the greatest sea disasters in US history.

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Microsoft -- aside from Bill Gates's far-sightedness and aggressiveness, luck and circumstances played a major role in Microsoft's ascendancy. Gates never invented the original DOS operating system, he bought it from a little Seattle outfit, then licensed it to IBM. That was amazing luck-item #1. The second amazing luck-item was that main competitor Apple never licensed the computer industry to use the Mac operating system. If Apple had done that, Microsoft might now be a struggling little company. As it is Microsoft last year generated profits of $2.3 billion on revenues of $8.6 billion. Microsoft has no debt and is sitting on $7 billion in cash. What to do with all that cash? Where to go next? Gates has decided to go into the media area, buying the rights to reproduce vast collections of art, painting and photographs. But as Gates puts it, he wants "interactive content," CD-ROMS, Web sites, etc.

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I have 6,000 subscribers, which makes this Letter one of the largest non-institutional reports in the industry. Obviously, a lot of my subscribers are "mature" and they think a good deal about their health. Which is one of the reasons I write about health subjects.

I continue to receive letters from my many physician-subscribers on the subject of chelation. I don't want to argue. If you're interested in the subject of your heart and in chelation, may I suggest that you go to your nearest health food store and buy one of the many books on EDTA chelation, then decide for yourself.

A blessing -- Dr. Kessler is finally leaving the FDA. Dictator Kessler has fought the alternative medicine industry for years and in that area to say Kessler is hated is putting it mildly. Meanwhile, for heart patients, "key-hole" surgery for limited arterial stoppage is now a reality. Believe me, any surgery that can avoid opening the chest is a huge plus (I know). In the new key-hole surgery, a limited incision is made and by-pass is achieved with the help of a tiny TV tube and special instruments. Amazing.

Speaking of health (and I often do), a study of people who live to a ripe old age showed only one common denominator -- consistency, which to me suggests leading an orderly life and avoiding stress. The average person lives a stressful life, and my advice (that is, if you want to live a long life) is to avoid stress, stay out of situations which you know will generate stress. Consistency means habit, maybe eating dinner every night at 5PM, taking a walk every day, doing what "feels right" every day, leading a sane life.

A Duke University study found that in 1960 there were about 3,500 centenarians in the US. By 1995 there were roughly 50,000. The Duke prediction -- by 2046 there could be as many as 1.5 million. The reason: people living healthier lives and receiving better medical care. Mmm, of course the population has also been increasing since 1960.

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Art "Appreciation": At one time I wanted to be a "great artist." I attended classes at NYC's famous Art Students' League, but after a year or so I decided that I was not going to be the next Picasso. But I've always had an interest in art. During the '50s I'd attend every new exhibit at the Modern Museum. In those days, if there were 15 people in the whole museum it was unusual. Today, you stand in line to get into the Modern and they wait on the steps for the morning opening of the Met. What caused the latter-day great interest in art? I've always believed it was the prices. When the public saw paintings going for millions of dollars, they finally got interested.

Prices: Last week at a Christie's auction, a de Kooning painting was put up for sale, and the pre-sale price was estimated to be $8-$10 million. The picture went for an amazing $15.6 million, the highest price ever for an American painting. The painting was originally purchased by Boris Leavitt for $2,500 at the Sidney Janis Gallery in NYC. Talk about appreciation . . . Last month a Swedish stamp sold for $2.2 million, the most ever for a single postage stamp . . . Meanwhile, top jewelry prices (diamonds, rubies, sapphires, emeralds) are going at extremely high prices. I stopped at Harry Winston's in NYC and asked to see fancy yellow diamonds. I was shown a 10.60 carat stone for which they wanted $1.2 million, or better than $100,000 a carat. No, I didn't buy it, but I wasn't sure I was hearing correctly. I was.

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I asked my buddy, Mike Susak, "Michael, if you were given the power to foresee any single future number, what number would you pick?" (Examples: number of years you have to live, number that will win the next big lottery, price of the Dow in the year 2,000.) Said Michael, "I'd probably pick a financial number -- might as well make some money out of it." What number would you pick?

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Prices and Stuff: Heavyweight fighter Holyfield owns a 52,000 square foot home (it looks more like a castle). Bill Gate's new home will be about 30,000 square feet, its cost around $50 million. Fashion designer Adrienne Vittadini just sold her home in the Hampton's for $6.8 million, the asking price was $7.25 million. Sales of million dollar homes in California picked up during the third quarter as a total of 705 buyers paid $1 million or more for their residences, compared with 524 for last year's third quarter. Meanwhile, Microsoft partner and co-founder Paul Allen had a NYC Park Avenue apartment video and upon seeing the video (he never saw the place in person) Allen plopped down $15 million and bought it. According to the coop's rules, new buyers must have assets of at least $100 million. Allen easily passed the test with

assets of $7.5 billion, making him easily New York's most eligible bachelor. Rumor is that NY's society ladies are frantic to introduce Allen to their unmarried lady friends . . . An article in the Nov. 24 *London Financial Times* is headlined, "Now It's the Real Thing That Counts -- Fakes Have Had Their Day." Meaning that real (read expensive) jewelry is in and fake diamonds and pearls are out. It's a trend, and a sign of the times . . . **Stats:** It cost $12,500 to house a single person for one year in a single-occupancy hotel in NYC compared with $20,000 in a homeless shelter, $60,000 in a jail cell, and $113,000 in a psychiatric ward.

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Trends: As readers know, I've always been fascinated with trends. I've already discussed the trend to empowerment for women. Here's another one. It's the battle and probable triumph of the PC over TV. If Microsoft and other software makers have their way, you'll be doing everything from shopping for shirts and skirts and cars to turning out the living room lights via your PC. The next major step will be voice-recognition. PCs will be voice-activated, where you'll walk into the room, tell your PC to "list all the movies within a mile of your home" and presto -- the list appears on a flat screen which is hanging on your wall. Or you'll tell your PC to reserve a late-night ticket to Seattle, and within five minutes it's done. Also, an increasing number of movies and other entertainment matter will be viewed on TV. Believe me, the battle of TV vs. PC is already on . . . Another battle? PC vs. the Internet. Says Intel's CEO Grove, "There will be hundreds of different devices hooked up to the Internet a year from now." Says Gates, none of this will challenge the PC. "The PC is still the full-screen device that you want to sit next to, to edit your E-mail, do your taxes, do your homework. It is the full-scale approach." **Russell comment:** There's a war a-comin', Internet vs. PC vs. TV.

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Another trend? Will the rise of the PCs bomb the service economy (which is what the US now has)? Will they need 10 employees in a McDonald's when you can drive up, tell a PC you want a Big Mac -- and the burger is automatically cooked, wrapped and popped out the front shoot, with just two employees running the whole show. Who will need insurance salesmen or car salesman or retail salesmen when an increasing amount of work will be done via the PC? In other words, is this nation going to move into a situation where there are only two classes -- the managing and computer-knowledgeable class and all the rest (all the rest working for minimum wages)? I think there's a good chance this could occur. As computers become faster and much more sophisticated, they'll be taking over more and more of the jobs than can be completely automated.

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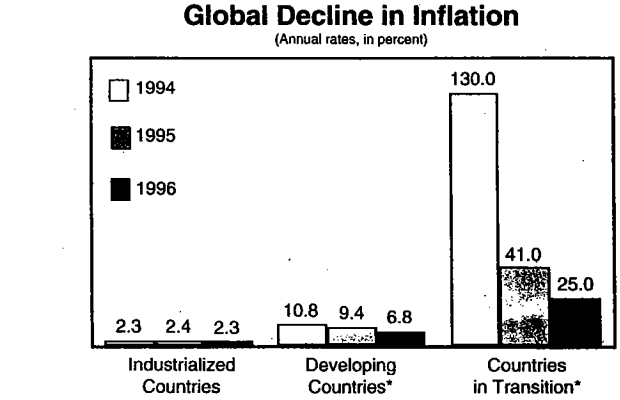
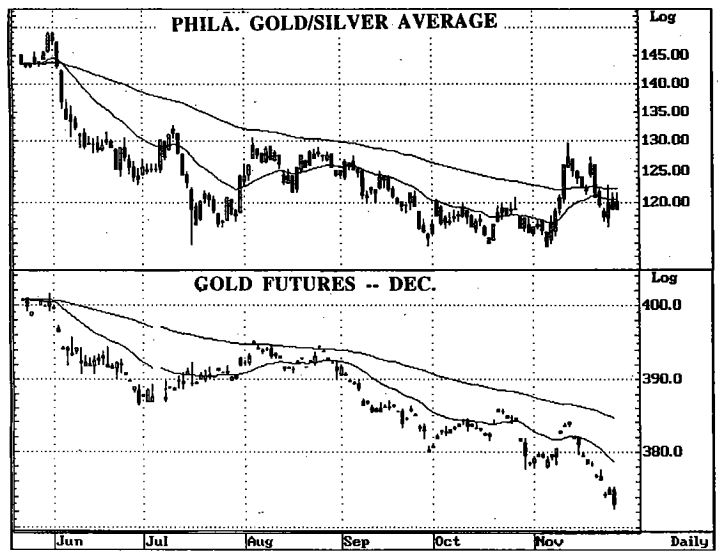
GOLD: I guess all you can say is that it wasn't unexpected, and, of course, I'm talking about the price of gold. My Gold-Primary Trend Index (G-PTI) has been heading down, making new lows ever since last March. I'm not showing the G-PTI chart, but suffice it to say that it just recorded a new low.

I don't know whether the "why?" of the gold situation is particularly important, but just for the record here are a few "whys?" (1) There's too much gold production in the world with many new gold mines opening. Of course, compared with paper currency production, gold production is minuscule. But that's part of the madness of the current world paper economy. (2) Looking at the chart (upper right), you have to consider the possibility of world deflation, as evidenced by world over-production, global unemployment, sluggish economies and rising bond prices. (3) Then there's the constant threat by the world's central banks to sell off large portions of their gold reserves. (4) Another problem is simply slow world demand for gold.

This interesting chart was just published by *United & Babson Investment Report* out of Boston. The world-wide trend is towards disinflation. The irony, however, is that in the realm of the wealthy, prices are rising, and I'm talking about selected real estate properties, jewels, art, property and certainly stocks.

An unusual phenomenon worth watching -- the Phila. Gold/Silver Average is not confirming (on the downside) the decline in gold,





the metal. I've said repeatedly that the only three gold shares I would hold are Euro Nevada and Franco Nevada (both on the Toronto) and Barrick Gold on the NYSE. All three have acted well, and Barrick has become the largest gold producer in the world.

LATE NOTES: The month of November set a Dow record -- largest pointage rise for the Dow in a single month in history. In percentages the Dow rose a monster 8.2% for the month.

With disinflation, interest rates throughout the world have been declining. And US bonds are attractive on a yield basis compared with most other bonds (strongest bonds, believe it or not, are Italian bonds accompanied by the newly-strong lira, which is now tied to the D-mark).

The only thing the stock market likes better than strong bonds is strong bonds and expanding business. I don't know whether business is currently expanding, but bonds have certainly been strong. At some point, however, bonds and stocks can part ways; this will happen if a recession creeps into the picture (I know the economists say this can't happen). But if a recession is near, bonds can continue to advance while the stock market heads down as it discounts trouble. That could be the scenario for 1997 -- but don't bet on it, at least not at this early date.

As for the long-awaited Transportation confirmation, I'll repeat that belated *confirmations* by one Average or the other have never impressed me. The last high for the D-J Transportation Average was recorded last May 2 at 2296.20. So if Transports finally do better that mark, I won't be excited. Seven months is too long for a confirmation to carry much authority.

Fed: A second article on the Fed's extended "do nothing" policy towards intense stock market speculation appeared in Friday's *USA Today* (the first appeared in the *WSJ* on Wednesday). It leads me to believe the pieces might have been "planted" (the Fed would love to cool the market via talk rather than action -- raising margins, for instance, might trigger a selling panic).

NEXT MAILING: Dec. 18, 1996